Supreme Court, U.S.
FILED
DEC 19 1995
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No. 95-805

In The

# Supreme Court of the United States

October Term, 1995

CHASE PACKAGING CORPORATION,

*Petitioner,*

v.

SUPER SACK MANUFACTURING CORPORATION,

*Respondent.*

**On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit**

## BRIEF OF RESPONDENT SUPER SACK MANUFACTURING CORPORATION, IN OPPOSITION

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## QUESTION PRESENTED

Whether the "actual case or controversy" requirement precludes a declaration regarding validity or enforceability of a claim when a defendant has absolutely no reasonable apprehension that it is facing or will face claims of infringement regarding the patents-in-suit because plaintiff has unequivocally stated that it will not assert or pursue claims of infringement against defendant, involving the patents-in-suit.

## LIST OF PARTIES TO PROCEEDING PURSUANT TO RULES 14.1(b) AND 29.1

Pursuant to Supreme Court Rule 14.1(b), Respondent certifies that the names of all parties to this proceeding appear in the caption of this Brief of Respondent Super Sack Manufacturing Corporation.

Pursuant to Supreme Court Rule 29.1, Respondent Super Sack Manufacturing Corporation is a subsidiary of Super Sack Bag Inc., a Delaware corporation. Respondent Super Sack Manufacturing Corporation does not have any nonwholly-owned subsidiaries.

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## STATEMENT OF THE CASE

Petitioner's description of the record as contained both in the statement of the case and in the argument is inaccurate in numerous respects. The following summary accurately sets forth the record and also points out those mischaracterizations of the record pertinent to the issues presented:

In response to the complaint Super Sack Manufacturing Corporation filed against Chase, Chase answered and counterclaimed for a declaratory judgment of invalidity and non-infringement. Chase, however, did not raise the issue of inequitable conduct in its Answer and Counterclaim. The parties proceeded with discovery, which was completed on *June 15, 1989*, and submitted a joint pretrial order to the Court on August 11, 1989. Contrary to Chase's assertion, the case has been essentially dormant since that time.

In the meantime, in 1990 Super Sack brought suit on the same patents against Augusta Bag Company in the U.S. District Court for the Southern District of Georgia (the "Augusta litigation").[1] The case was tried to the Georgia court in July 1992, and the court found the patents-in-suit valid but not infringed. The decision of the Georgia court was subsequently affirmed by the Federal Circuit in September 1993. *Super Sack Mfg. Corp. v. Augusta Bag Co.*, 6 F.3d 786 (Fed. Cir. 1993).

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[1] Super Sack brought suit on the same patents against other companies that infringed its patent rights. The Augusta lawsuit was actually the second lawsuit tried. Super Sack was victorious in the first trial against Bulk-Pack, Inc. and Bancroft Bag, Inc.

Although the Georgia court's interpretation of the scope of the claims and range of equivalents was not binding on the district court in this case, Super Sack determined that as a practical matter the Georgia ruling would make it difficult to prevail on the issue of infringement in this and other pending actions. Accordingly, Super Sack offered to dismiss all claims in this case with prejudice if Chase would agree to a dismissal with prejudice of its declaratory judgment counterclaims in the case. Chase refused, demanding that Super Sack dismiss its claim for infringement and that the trial on the issues of invalidity and unenforceability proceed.

After the Georgia court's decision in *Augusta Bag*, Chase filed a Motion for Summary Judgment on the issue of inequitable conduct, relying upon defenses and counterclaims asserted by third parties in other actions involving the patents-in-suit. Super Sack responded. On March 26, 1993, the parties, at the court's direction, filed a second Joint Pretrial Order in which Chase incorrectly advised the court that its declaratory judgment counterclaims included the allegation that "the patents in suit are unenforceable against the Defendant because of the patentees' and their attorneys' inequitable conduct before the U.S. Patent and Trademark Office during their prosecution." Super Sack pointed out in the second Joint Pretrial Order that "Defendant never plead inequitable conduct on the part of the Patentees and no discovery was taken on this issue."

The parties filed a Joint Status Report on May 12, 1994. In that Status Report, Super Sack pointed out that "Plaintiff believes that the decisions of the District Court and the Federal Circuit in the Augusta Bag litigation,

although clearly not binding precedent, practically remove any economic motives to litigate the issues of infringement and validity in the present case." Chase stated that "[t]he issues remaining in this case from the Defendant's point of view are: 1) non-infringement, 2) inequitable conduct of Plaintiff, and 3) attorneys' fees." "If the Plaintiff still asserts the issue of infringement," Chase said, "then the Defendant would assert that the patents in suit are invalid," making it crystal clear that Chase had no interest in litigating the validity of the patents-in-suit, except as a defense to a charge of infringement.

On May 27, 1994, the court issued an order directing the parties to confer to determine whether this case should proceed to trial in light of the following facts: (1) Super Sack has indicated that it no longer wished to pursue its infringement claims against Defendant; and (2) it appeared to the court that if Super Sack dropped its infringement claim, Chase might also drop its claim for inequitable conduct. On June 15 and June 16, 1994, Super Sack and Chase, respectively, filed separate reports to the court, wherein Chase made clear that it was unwilling to agree to a dismissal of its declaratory judgment counter-claims in the event the infringement claim was dismissed.

Immediately after the filing of the status reports, Chase filed a Motion to Lift Stay for Limited Purposes, to Amend its Pleading, and to Reinstate the Stay, ("Motion to Amend") and a motion, not known to the Federal Rules of Civil Procedure, entitled Motion Requesting this Court to Order Plaintiff to Show Cause Why Defendant's Motion for Summary Judgment Should Not be Granted ("Motion to Show Cause").

On July 8, 1994, Super Sack filed its Motion to Dismiss for Lack of Jurisdiction or, in the Alternative, Plaintiff's Motion to Dismiss by Order of this Court and Memorandum in Support ("Motion to Dismiss".)[2] Super Sack expressly stated that it "no longer desires to pursue its claims for infringement of U.S. Patent Nos. 4,194652 and 4,143,796 . . . ". Accordingly, no case or controversy exists. On September 1, 1994, an Order dismissing this case was entered. As a result of the foregoing order, Chase appealed to the Federal Circuit. Having duly considered Chase's written and oral arguments, the Federal Circuit, by way of a twelve (12) page opinion, affirmed the trial court's Order. Chase subsequently petitioned for rehearing with suggestion for rehearing in banc. Chase's petition for rehearing was denied by the Federal Circuit.[3]

## SUMMARY OF ARGUMENT

Simply filing a declaratory judgment does not create a case controversy where none existed previously. Super Sack has *unconditionally agreed* not to sue Chase for infringement of any claim of the patents-in-suit, thereby

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[2] Once again, contrary to Chase's assertion, the Motion to Dismiss was not filed on the "eve of trial." There was no current trial setting for this case.

[3] After Chase filed its petition for rehearing, Chase filed a bill of costs. Super Sack filed an objection to the bill of costs in its entirety along with a separate opposition to object to specific requested cost items. The trial court awarded Chase costs in the amount of $9,284.50. Thus, Super Sack has *not* been allowed to dismiss its complaint without the assessment of "terms and conditions", as provided for in Rule 41.

removing any current or future apprehension by Chase that it will face claims of infringement of the patents-in-suit and eliminating any actual case or controversy in this action. Without an actual case or controversy, the trial court was divested of jurisdiction and lacked subject matter jurisdiction to grant Chase's request for declaratory judgment. The existence of an actual case or controversy is an absolute prerequisite for declaratory judgments under 28 U.S.C. § 2201. The "actual case or controversy" requirement precludes a declaration regarding *validity* or *enforceability of claims unless* Chase objectively has a reasonable apprehension that it is facing or will face claims of infringement regarding those claims. Since Super Sack has unequivocally stated that it will not assert or pursue claims of infringement against Chase involving the patents-in-suit, there is no reasonable apprehension of Chase being sued by Super Sack. Therefore, the granting of Super Sack's Motion to Dismiss was proper and should be affirmed because there is no case or controversy between Super Sack and Chase.

Additionally, Chase's attempt to interject the issue of inequitable conduct simply does not create a case or controversy. The Federal Circuit had recognized that the fact that "issues of invalidity and enforceability are raised in a declaratory judgment action does not change what is 'the claim.' The basis for maintaining a declaratory judgment action for invalidity (or enforceability) rests upon the existence of an actual case or controversy" cognizable in Federal Court. *Foster v. Hallco Mfg. Co., Inc.*, 947 F.2d 469, 20 U.S.P.Q.2d 1241 (Fed. Cir. 1991). The act of obtaining an invalid patent alone creates no legal right to a

remedy in another. *Id.* Thus, charges of inequitable conduct, like other patent invalidity defenses, disappear when the charge of infringement is moot.

Finally, the Federal Circuit *did not* misconstrue the *Cardinal, Altvater* or the *Shelcore* case. In *Cardinal,* the issue of infringement and invalidity had been fully litigated both at the trial level and at the appellate level. The court held that, in such a situation, a ruling of invalidity by the trial court should not be vacated by the appellate court merely because non-infringement had also been determined. Thus, in *Cardinal,* the infringement issue was still active and alive at the appellate level, thereby providing a basis for a decision of validity.

In *Altvater,* a live controversy existed separate and apart from the original cause of actions relating to specific performance of a license agreement involving the issuance of an original patent. Here, plaintiff demanded royalties and defendant paid royalties on additional articles manufactured and sold by defendant which plaintiff claimed to infringe the reissue patent. Because the controversy involved went beyond the original claim and beyond the original accused devices, this court was correct in finding that there was a justiciable controversy.

In *Shelcore,* the patentee had withdrawn its charge of infringement as to one claim only. Thus, the accused infringer still had a reasonable apprehension as to being sued under the remaining claims. Since a case or controversy remained as to the claims that had not been withdrawn, the issue of validity as to those claims was still viable. The present case is distinguishable because the charge of infringement has been permanently withdrawn

as to all claims; thus, there is no case or controversy to support a claim of invalidity.

## REASONS FOR DENYING THE WRIT

At the trial level, Chase failed to meet its burden of proving that a sufficiently concrete dispute between the parties still remains since the time the counterclaim was filed. First, Chase had no reasonable apprehension that it would face an infringement suit on the patents-in-suit with respect to past and present product. Second, as correctly stated by the Federal Circuit, "[t]he residual possibility of a future infringement suit based on Chase's future acts is simply too speculative a basis for jurisdiction over Chase's counterclaim for declaratory judgments of invalidity." Appendix, p. 12a. Thus, the trial court properly dismissed the case for lack of a "case of actual controversy within its jurisdiction" as required by the declaratory judgment statute, 28 U.S.C. § 2201.

As shown below, the trial court's ruling is not contrary to *Cardinal Chemical Co. v. Morton Int'l Inc.*, 113 S.Ct. 1967 (1993). As the Federal Circuit correctly pointed out, "*Cardinal* does not revolutionize the justiciability of declaratory judgment actions attacking a patent's validity, in the manner that Chase suggests or otherwise, and nothing in *Cardinal* undermines our decisions on declaratory justiciability at the trial court level, decisions according to which jurisdiction was clearly wanting in the instant case." Appendix, p. 13a.

## I. NO CASE OR CONTROVERSY EXISTS BETWEEN SUPER SACK AND CHASE

### A. There Was No Longer a Case or Controversy Once Super Sack Withdrew its Claim of Infringement

Contrary to Chase's assertions, simply filing a declaratory judgment action does not forever create a case or controversy. Since Super Sack unconditionally agreed not to sue Chase for infringement of any claim of the patents-in-suit on Chase's then existing product line, its covenant totally removed any current or future apprehension by Chase that it would face claims of infringement of the '796 and '652 patents, and completely eliminated any actual case or controversy in this action. *Level 1 Techs., Inc. v. C.R. Bard, Inc.*, 839 F. Supp. 90, 30 U.S.P.Q.2d 1715 (D. Mass. 1994) (actual controversy extinguished when patent holder abandoned allegation of infringement prior to trial). *See also Grain Processing Corp. v. American Maize-Products, Co.*, 840 F.2d 902, 906, 5 U.S.P.Q.2d 1788 (Fed. Cir. 1988) (where controversy is resolved subsequent to filing of complaint, actual controversy is removed and court was divested of jurisdiction). Without an actual case or controversy, the trial court was divested of jurisdiction. *Spectronics Corp. v. H.B. Fuller Co., Inc.*, 940 F.2d 631, 633-36, 19 U.S.P.Q.2d 1545 (Fed. Cir.), *cert. denied*, 502 U.S. 1013 (1991) (patent holder's "statement of non-liability" mooted case and court lost jurisdiction over declaratory judgment when actual controversy was removed); *Foster v. Hallco Mfg. Co., Inc.*, 947 F.2d 469, 479, 20 U.S.P.Q.2d 1241 (Fed. Cir. 1991) (Declaratory Judgment Act provides no independent basis for subject matter jurisdiction).

Absent Super Sack's claim of infringement, the trial court lacked subject matter jurisdiction to grant Chase's request for declaratory judgment. The existence of an actual case or controversy is an absolute jurisdictional prerequisite for declaratory judgments under 28 U.S.C. § 2201. *BP Chemicals Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 977-78, 28 U.S.P.Q.2d 1124 (Fed. Cir. 1993); *Spectronics*, 940 F.2d at 633-36 (patent holder's "statement of non-liability" to plaintiff mooted case); *Grain Processing*, 840 F.2d at 905.

Moreover, an actual controversy must exist at all stages of review, not merely at the time the complaint is filed. *Grain Processing*, 840 F.2d at 905-06 (citing *Preiser v. Newkirk*, 422 U.S. 395, 401 (1975)). "The long established rule of law is that a declaratory judgment plaintiff must establish an actual controversy on the 'totality of the circumstances.'" *Spectronics*, 940 F.2d at 634 (quoting *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 272 (1941)). Appendix, p. 8a. The Federal Circuit has recognized a two-part test for determining justiciability with respect to declarations of patent rights and relationships. *BP Chemicals* at 978.[4]

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[4] Chase argues that the decision in *BP Chemicals* is wrong. However, Chase fails to offer any reason whatsoever why the decision in *BP Chemicals* should be limited exclusively to a declaratory judgment claim of non-infringement. Chase further argues that it created a case or controversy by simply filing its declaratory judgment action for invalidity, and that Super Sack has the burden to show there was no issue as to the validity of the patents-in-suit. Contrary to Chase's contention, this Federal Circuit correctly recognized that "a party seeking a declaratory judgment [still] has the burden of establishing the existence of an actual case or controversy." *Cardinal* at 1974 (citing Aetna Life Ins.) Appendix, p. 13a.

As stated in *BP Chemicals*:

> There must be both (1) an explicit threat or other action by the patentee, which creates a *reasonable* apprehension on the part of the declaratory plaintiff that it will face an infringement suit, and (2) *present* activity which could constitute infringement or concrete steps taken with the intent to conduct such activity.

*Id.* (Emphasis supplied).

Since Super Sack unconditionally agreed not to sue Chase for infringement of any of the claims of the patents-in-suit on Chase's then existing product line, there was no current or future apprehension by Chase that it would face claims of infringement of the patents-in-suit thereby eliminating any actual case or controversy in this action.

Furthermore, although Super Sack's covenant not to sue does not pertain to Chase's future acts, the Federal Circuit correctly held that there still is no justifiable controversy. First, "[t]he residual possibility of a future infringement suit based on Chase's future acts is simply too speculative a basis for jurisdiction over Chase's counterclaim for declaratory judgment of invalidity." Appendix, p. 12a. Second, Chase "never contended that it has already taken meaningful preparatory steps toward an infringing activity by planning to make a new product that may later be said to infringe." Appendix, p. 11a. Accordingly, the Federal Circuit correctly found that "[t]he only proper course for the trial court was to dismiss the case for lack of jurisdiction." Appendix, p. 12a.

In this action, Super Sack has both moved to dismiss its complaint with prejudice *and* unconditionally promised not to sue Chase in the future on the patents-in-suit. Thus, Super Sack is forever estopped by its counsel's statement of non-liability from asserting liability against Chase on its then existing product line. Accordingly, the case or controversy between these parties was removed, and the trial court was divested of subject matter jurisdiction over this action. *Spectronics*, 940 F.2d at 633 (covenant not to sue in the future removes any apprehension of suit).

### B. Chase's Declaratory Judgment Counterclaim Does Not Exist Independent Of Super Sack's Claims of Infringement

In its petition, Chase argues that the Federal Circuit incorrectly interpreted this Court's decision in *Cardinal*. Petition, pp. 15-17. Chase argues that *Cardinal* supports the proposition that Chase's counterclaim exists independently of Super Sack's claims of infringement and therefore survives dismissal of Super Sack's complaint. *Cardinal* stands for no such proposition. In *Cardinal*, this Court examined the Federal Circuit's policy of *routinely* vacating declaratory judgments of patent invalidity following a determination of non-infringement of the patent.[5] *Cardinal*, 113 S.Ct. at 1974. Indeed, this Court stated: "the issue before us[,] therefore concerns the jurisdiction

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[5] This Court's decision in *Cardinal* relates to the vacating of decisions on validity after full trial on the merits and briefing and argument of the validity were on appeal – hardly the case here.

of an intermediate appellant court – *not* the jurisdiction of either a trial court or this Court." *Id.* (emphasis added). This Court continues by stating that "[i]n the trial court, of course, a party seeking a declaratory judgment has the burden of establishing the existence of an actual case or controversy." *Id.*

Unlike this action, in *Cardinal* a live controversy existed between the parties even after the determination of non-infringement. *Id.* at 1968. Since there was a continuing controversy urged by both parties because the defendant could still be sued on the patents-in-suit and the plaintiff held what it felt to be useless patents in light of related invalidity decisions, the court held the Federal Circuit's policy of automatically vacating declaratory judgments upon a determination of non-infringement to be improper and allowed the adjudication of the counterclaim. *Id.* at 1978. Therefore, *Cardinal* stands for no more than that the Federal Circuit has the power to hear declaratory judgments of patent invalidity after a determination of non-infringement *where there continues to exist an actual case or controversy.*

*Cardinal* is clearly inappliciable to the facts in this action. First, the issue in the instant action does not involve the power of an intermediate court to hear declaratory judgment counterclaims after a finding of non-infringement. More importantly, Chase has not demonstrated that an actual case or controversy exists in the absence of Super Sack's claims of infringement and the absence of any threat of suit in the future. Thus, no subject matter jurisdiction and dismissal was proper.

Next, Chase argues that the Federal Circuit's opinion is also contrary to this Court's decision in *Altvater v. Freeman*, 319 U.S. 359 (1943). Petition, p. 16. In *Altvater*, a live controversy existed separate and apart from the original cause of action, a license agreement involving an original issued patent. Here, defendants were manufacturing and selling additional articles claimed to fall under the reissue patent. Plaintiff demanded royalties and defendants paid royalties under protest on these additional articles. Because the controversy involved went beyond the original claim and beyond the original accused devices, this court was correct in finding that there was a justiciable controversy.

In its petition, Chase also cites selected excerpts from the dissent of Judge Nies from the Order declining the suggestion for rehearing in banc in the case of *In re Lockwood*, 50 F.3d 966, 968 (Fed. Cir. 1995) to support its proposition that Chase's counterclaim exists independently of Super Sack's claim of infringement. Petition, p. 15. However, in *In re Lockwood*, the sole issue on appeal was whether the patentee had a right to demand a jury on the issue of invalidity, after a finding of non-infringement.[6] Again, the excerpts were taken out of context and have nothing to do with the present issue.

Finally, Chase argues that the Federal decision is in direct contrast to the holding in the case of *Shelcore, Inc. v. Durham, Indus.*, 745 F.2d 621 (Fed. Cir. 1984). Petition, p.

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[6] The district court granted Defendant's Motion for Summary Judgment of non-infringement and struck the patentee's demand that the invalidity issue be tried by a jury.

18. *Shelcore* is clearly distinguishable on its facts. In *Shelcore*, this Court held that Shelcore could not unilaterally remove the validity issue by voluntarily dismissing with prejudice only *one* claim of one of the patents-in-suit, because Durham's counterclaim put validity of *all* the claims in issue. *Id.* at 624.[7] Thus, there remained a case or controversy. Unlike *Shelcore*, Super Sack has forever removed *all* claims of the patents-in-suit from issue. Thus, there was no controversy remaining after Super Sack's "non-liability statement."[8]

### C. Chase's Amended Counterclaim Does Not Create a Case or Controversy

There was no case or controversy between Super Sack as to the non-infringement of the '796 and '652 patents, or the unenforceability of the '796 and '652 patents, based on Chase's charge of inequitable conduct (assuming inequitable conduct was ever an issue in this case).[9]

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[7] In *Shelcore*, Shelcore initially sued Durham for infringement of claims 1-13 of a utility patent and of a design patent. *Id.* at 623. During trial, Shelcore voluntarily dismissed with prejudice claim 13 of the utility patent, leaving the remaining claims of infringement at issue. *Id.*

[8] The Federal Circuit has held that there was no controversy remaining after patent holder's "non-liability statement," even though reissue patents involving the same subject matter were then pending. *Spectronics*, 940 F.2d at 636.

[9] In the Joint Status Report filed May 12, 1994, Chase made it clear that it has no interest in pursuing its Declaratory Judgment counterclaim for invalidity if Plaintiff did not assert the issue of infringement.

The Federal Circuit has recognized that the fact that "issues of invalidity and enforceability are raised in a declaratory judgment action does not change what is 'the claim'. The basis for maintaining a declaratory judgment action for invalidity [or enforceability] rests upon the existence of a case or actual controversy," cognizable in federal court. The act of obtaining an invalid patent alone creates no legal right to a remedy in another. *Foster*, 947 F.2d at 479. Indeed, this Court has recognized that fraud and inequitable conduct, like non-infringement and invalidity, are merely *defenses* to allegations of patent infringement, *Precision Instrument Mfg. Co. v. Automotive Maint. Mach. Co.*, 324 U.S. 806 (1945) (inequitable conduct a defense to patent infringement under doctrine of unclean hands), even though they be dressed up in the garb of a declaratory judgment counterclaim. Thus, charges of inequitable conduct, like other patent invalidity defenses, disappear when the charge of infringement is removed. *Foster*, 947 F.2d at 479 (Declaratory Judgment Act provides no independent basis for subject matter jurisdiction); *Spectronics*, 940 F.2d at 635 (court loses jurisdiction over declaratory judgment when actual controversy is removed).

Given that Super Sack removed any actual controversy between the parties, the trial court was divested of subject matter over Chase's declaratory judgment claim. Accordingly, the Federal Circuit properly affirmed the trial court's dismissal of this action.

## CONCLUSION

The Petition for Writ of Certiorari should be denied.

Respectfully submitted,

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